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C O N F I D E N T I A L SECTION 01 OF 02 MEXICO 000701

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SUBJECT: CHINESE VP TRIP TO MEXICO - JOURNEY BEGINS WITH A
FIVE-STEP PROPOSAL

REF: BEIJING 518

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SUBJECT: CHINESE VP TRIP TO MEXICO - LATAM JOURNEY BEGINS
WITH A STEP

REF: BEIJING 518

Classified By: Acting Deputy Chief of Mission James Williard,
reasons 1.4 (b/d).

¶1. (C) SUMMARY: Last month,s three-day visit by Chinese Vice President Xi Jinping to Mexico was the first stop of a six-nation tour in the region. In his meetings with President Calderon, senior government officials, congressional leadership, and businessmen, Vice President Xi called for the rapid advancement of deeper economic and trade relations between the two countries. Xi,s visit intensified the Mexico-China dialogue; however, Mexico,s trade deficit with China and concerns over China,s approach to investment continue to color Mexico,s perception of China as a true partner. END SUMMARY.

¶2. (SBU) The February 9-11 visit was a follow-up to the state visit by President Calderon to China in July 2008, at the end of which President Calderon invited President Hu to visit Mexico again soon. The press reported that Vice President Xi met with Calderon on February 11 and pushed for the two countries to make full use of the Strategic Dialogue Mechanism (established in July 2008) to map out detailed plans for cooperation on relevant issues in their bilateral and multilateral agendas. Xi also expressed China,s desire to continue reinforcing binational exchange and cooperation in the areas of education, science and technology, culture, health and medicine, tourism, social development and the prevention of natural disasters, in order to further increase mutual knowledge and friendship between the two countries. Finally, Xi stated that as major developing countries, China and Mexico share similar positions and common interests in light of the current economic situation, and should maintain close contact and coordinate stances in protecting themselves and other developing countries from the impact of the global financial crisis. In response, Calderon declared that Mexico is ready to deepen the strategic dialogue and expand coordination and cooperation on major international and regional issues. He also said Mexico will work with China to meet the challenges brought about by the financial situation.

¶3. (C) What the leaders did not discuss was Mexico,s huge trade deficit with China, which reached USD 30 billion in 2008 - Mexico,s largest trade gap with any of its partners. Neil Davila, Regional Director of ProMexico (Mexico,s FDI promotion agency) responsible for promoting Asian investment

in Mexico, told ECONOFF that Mexico,s government hopes this trade deficit can be offset by Chinese investment in Mexico. Total Chinese FDI stock in Mexico reached USD 70 million in 2008, up almost 25 percent from 2007. Bruno Ferrari, Director of ProMexico, told an audience at a luncheon in Xi,s honor that he hoped Chinese investment in Mexico could match the 25 percent increase this coming year. &There are great opportunities for Chinese investors in Mexico, in different sectors, like automotive, construction and energy,8 he said. (NOTE: While Chinese investment in Mexico is up, overall foreign direct investment in Mexico is down) from USD 27.2 billion in 2007 to USD 18.6 billion in 2008. END NOTE.)

¶4. (C) Accompanying Vice President Xi were representatives from 20 Chinese companies; among them, copper tube producer Gold Dragon Group, who claim they have already invested USD 100 million in Mexico and intend to invest an additional USD 100 million over the next few years. (NOTE: Mexico,s Economy Secretariat,s FDI analysts dispute Gold Dragon,s prior investment claim, but confirm that the leading copper producer,s planned Mexican plant, in the copper-rich state of Coahuila with a designed capacity of 70,000 tons of precise copper tube, will cost up to USD 100 million to build. END NOTE). Chinese automaker ChangAn took advantage of Xi,s Mexico trip to announce its joint venture with a Mexican company to launch a car assembly plant in Mexico, but was short on specifics. In addition, Chinese computer manufacturer Lenovo also announced the opening of its USD 40 million plant in Monterrey, Nuevo Leon) its third production facility in Monterrey. Chinese investment in Mexico,s manufacturing sector is well-positioned to take advantage of access to the United States market under NAFTA as well as serve as a launching pad for exports to other markets in Latin America.

¶5. (SBU) At the same luncheon as mentioned above, Vice
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President Xi raised a five point proposal to rapidly advance the economic and trade relations between China and Mexico:
1) Both sides should trade and advance their economic and trade cooperation from a strategic perspective; 2) the two governments should further improve their services; 3) Mexico and China should actively promote cooperation in key sectors) mining, telecommunications, agriculture, fisheries, processing and assembly plants, and renewable energy; 4) Chinese and Mexican enterprises should be the main force behind increased economic and trade cooperation; and 5) both sides should expand their cooperation in international economic affairs.

¶6. (C) This was the luncheon at which Xi made an uncharacteristic outburst to the mixed group of Chinese businessmen, overseas Chinese citizens, and Mexican officials and potential business partners (see ref). Local media did not pick up his comments and local pundits offered no opinions, but it should be noted that his criticism of &well-fed foreigners8 sharply contrasted from the overarching cooperation theme of his visit and were delivered on the first leg of his trip in a country with strong ties to the United States.

¶7. (C) COMMENT: Vice President Xi,s visit intensified the Mexico-China dialogue. Calderon was positive in his perception of this visit in his remarks to the press, and the GOM used this trip to push for additional Chinese investment in Mexico to offset the wide trade gap. However, Mexican officials are reluctant to push too strongly for increased Chinese presence. &We don,t want to be China,s next Africa,8 ProMexico official Davila told ECONOFF, referring to the oft-cited criticism that China has pursued a strategy of seizing the continent,s huge natural resources while dumping cheap industrial manufactured products into Africa,s markets. &We need to own our country,s development.8 END COMMENT.
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